Meeting Minutes
Executive Steering Committee
Corporate Automation Plan-Phase 2
July 22, 2004

Industry Attendees: Bob O'Brien, Joe Lubenow, Joyce McGarvy, Val Scansaroli, Vince Giuliano, Anita Pursley.

Postal Attendees: John Rapp, Tom Day, Nick Barranca, Bill Galligan, Walt O'Tormey, Aron Sanchez, Scott Bombaugh, Pritha Mehra, Jeff Freeman, Greg Whiteman, Skip McGill.

The meeting began at 10:00 a.m. with a discussion on the need to update the main body of MTAC with the status of the Corporate Automation Plan, Phase 2 (CAP P2). It has been nearly a year since Corporate Automation Plan Phase 2 was announced to MTAC. A full briefing was delivered at the February 2004 MTAC meeting and the Corporate Automation Plan, Phase 2 document was made available at the May 2004 meeting.

Bob O'Brien stated that the industry wanted to understand as soon as possible how automation plans would change how mail is prepared and presented so that mailers can adapt their business plans and plan for capital investments. Van Scansaroli reiterated this point and stated that DPP/FSS would change current practices, which is why the industry is following this change closely. John Rapp stated we had decided to share the R&D plans for DPP/FSS with the industry early in the process so it could be aware of and work with the Postal Service to plan for any changes if the R&D effort is successful. We understand the industry is anxious for answers, but we need to avoid making any hasty decisions. We want to proceed with due diligence, make the right decisions and set the right course.

Distribution Quality Improvement Program

During discussion of the first agenda item, John Rapp presented the Distribution Quality Improvement (DQI) program. DQI is an initiative to improve the read rate of mail in the automation mailstream by utilizing a commercially available name and address database to enhance barcodes on mailpieces in order to distribute mail to the finest depth of sort using automation. Currently, the Postal Service has an address recognition read rate of about 86 percent for letters and distributes about 77 percent of letters to Delivery Point Sequence, the finest depth of sort. If successful, the Distribution Quality Improvement program would allow the Postal Service to sort more mail accurately by resolving address conflicts, correcting inaccurate and incomplete addresses, and correcting recognition errors. Plans call for a test in August and September 2004. If the test proves successful, a national deployment could occur in spring 2005.

Joe Lubenow stated that the DQI effort complements the efforts of MTAC work group #88 tasked with identifying barriers that prevent mail from being sorted to delivery point

sequence. The workgroup will complete their work before the end of the year and will include recommendations for improvement.

Val Scansaroli asked why mail without a complete address was not treated as undeliverable as addressed (UAA) mail. Mr. Rapp stated that it costs more to handle a piece through UAA than it does to have the carrier case and deliver the piece. Also, it is part of the USPS culture to deliver the piece if possible.

Joe Lubenow asked about the selection process for the commercial names database supplier. Aron Sanchez indicated that USPS suppliers have incentive contracts to improve recognition read rates. Those suppliers will select the commercial database supplier based on a best value approach.

Joe Lubenow stated that DQI was a good USPS initiative. It will not correct the whole address quality problem as it affects only the mail that USPS codes. The industry still has work to do to improve the quality of all addresses.

MERLIN Update

Pritha Mehra, Manager, Marketing Technology & Channel Management presented an update on MERLIN and discussed how it ties to the Corporate Automation Plan. Today customers barcode about 70 percent of all individual mail pieces and have helped USPS realize significant savings and service improvements since the start of the automation program. MERLIN is a tool used by BMEU's to determine if presort mailings qualify for presort and automation rates. It is able to check barcode and presort quality, tray label accuracy, address accuracy, meter identification and date. Currently over 1200 MERLIN machines are deployed nationwide. The goal of testing 17 percent of mailings under 10,000 pieces has been met. The Postal Service currently is testing sixty-two percent of mailings greater than 10,000 pieces and is progressing toward the 100 percent goal.

MERLIN is capable of matching the barcode to the address on the piece. This feature is turned off currently, but will be used in the future. The program team is working with the mailing industry to adjust the CASS system to ensure that MERLIN and CASS match when handling certain exceptions, e.g., "9999" under certain conditions is valid for general delivery.

Joe Lubenow stated that a way to make MERLIN less controversial and more valuable is to develop a system that exchanges information between MERLIN and Postal One. When asked why MERLIN does not handle certain complex presort mailings, Tom Day stated that a value engineering evaluation is performed to determine if there is a sufficient ROI payback to justify software development for occasional transactions. Sometimes it costs less to keep the manual system.

DPP/FSS Status

Tom Day, Vice President, Engineering presented an update on the DPP/FSS Research and Development. Multi-phase contract awards to six vendors were made in November

2003. There are two vendors for FSS and four vendors for DPP. Development phases are as follows:

Flat Sequencing System (2 contractors)	Planned Completion
Phase 1: Evaluate FSS Design & Simulation Results	Jun 2004
Phase 2: Build and Test FSS Prototype	Sep 2005
Phase 3: Field Test at Postal Facility	Mar 2006

Delivery Point Packaging (4 contractors)	Planned Completion
Phase 1: Evaluate DPP Design & Simulation Results	Aug 2004
Phase 2: Develop and Evaluate Test Bed Model	Jan 2006
Phase 3: Build and Test DPP Prototype	May 2007
Phase 4: Field Test at Postal Facility	Mar 2008

Phase 1 is complete for FSS and nearing completion for DPP. At the end of Phase 1, the Postal Service evaluates design concept proposals to determine if there is merit for a Phase 2 award. Contract proposals for Phase 2 are under review. Future phases are dependent on Phase 2 success. At this time, vendor development information is proprietary.

When asked if the machines would be capable of feeding 40,000 pieces per hour Tom Day stated that the FSS vendors have developed similar systems for several foreign posts that are capable of feeding 40,000 pieces per hour. Both vendors are adapting the systems for the US mail base and similar throughputs are expected. DPP is different in that it is a combination of existing components, such as feeders, transports and packagers that work well plus new unique components.

Vince Giuliano asked if there were any new insights vs. the initial concepts such as mail make-up or limitations on size and shape dimensions. Tom Day stated that vendors have demonstrated they are capable of sorting the full range of sizes and shapes that we have in the mail base today. In addition, vendors have incorporated several levels of presort or sequenced volumes, but we have not yet determined if they have value. Both systems have a large footprint. DPP would reduce the need for existing Delivery Bar Code Sorters (DBCS) and Automated Flat Sorting Machines (AFSM). FSS would reduce the need for AFSMs.

Val Scansaroli stated that the industry is trying to understand if DPP or FSS will come to fruition and, if it does, what changes would the industry experience. How should the industry plan for the future? John Rapp said that the Postal Service is being careful not to make premature statements that would cause the industry to make changes that later turned out to be unnecessary.

Bob O'Brien asked if there is a "confidence needle" that would be useful for the industry. Tom Day replied that on-going discussions with vendors include requests for "order of magnitude cost" which is proprietary, but we do not know the ROI at this point. When asked if the Postal Service would consider deploying both DPP and FSS, John Rapp

replied that some on the staff support the idea, but he questioned whether the Postal Service would be able to justify the cost of deploying both systems. Val Scansaroli asked whether network integration plans are a major factor for DPP/FSS. John Rapp replied that DPP/FSS distribution would occur at the endpoint of distribution at a destination plant or facility and would have little impact on the evolution of the network that focuses on optimizing the flow of originating and network volumes to destination plants.

Vince Giuliano asked if delivery windows would change, either compressed or lengthened. John Rapp said that not much change is expected vs. today, but did indicate that mailers that drop-off in the early morning hours and expect same day delivery may be problematic. Getting out of sacks may speed-up the process for mailers.

Vince Giuliano asked if total mailer cost, which has a bearing on whether customers stay in mail or go to another channel for advertising, was expected to increase. Nick Barranca stated that, if successful, DPP or FSS are expected to improve efficiency and take cost out of the system, so its reasonable to expect that rates for DPP or FSS would not be greater than the carrier route rates they would replace.

Tom Day stated that the Postal Service is one year away from having the information that would help the industry to better assess how DPP/FSS would influence their business. John Rapp stated that if a decision were made to proceed with DPP or FSS, the industry would have a couple of years to react to the change.

Automated Package Processing System (APPS)

Tom Day, Vice President, Engineering presented an update on the APPS deployment and recognition of optional endorsement lines (OEL) on bundles. First article test and acceptance for APPS occurred at Minneapolis, MN. A 13-month deployment to 74 sites will begin in August 2004. APPS uses OCR recognition to read both the OEL and address block information to sort mail. Current read rates are about 80 percent with failures attributed to address blocks obscured by strapping or by opaque shrink-wrap. Changes to the DMM are being proposed to require that presort packages must have the bar-coded pressure sensitive package label and the delivery address block visible, including the optional endorsement line. In addition, the DMM change would recommend placing the address label in one of the four corners of the mailpiece. An alternative option would allow labels to be covered if clear strapping or clear shrink-wrap with less than 70 percent haze are used or an OEL package label is used.

The APPS machine can be used in dual mode for periodicals and standard mail that saves on allied labor to set-up and support the machine. The mail transport equipment (MTE) offers flexibility to optimize sweep and takedown time, flow through the plant and onto transportation.

Joe Lubenow stated that while visiting Minneapolis to see the APPS in operation, he noticed the reject bin was full of strapped packages, shrink-wrap packages with a lot of overhang (selvage) and broken packages prepared with rubber bands. Tom Day stated that recognition through opaque straps and shrink-wrap is a problem and the reason why

the Postal Service is proposing changes to the DMM. Pritha Mehra stated that a bundle breakage test at BMEU's is also under consideration.

Joe Lubenow asked if alternative options to have bundles on pallets bypass SPBS/APPS processing are under consideration. John Rapp indicated that a proposal was being looked at that would use a pallet placard prepared by the mailer to indicate the specific zones included on a pallet. In some cases, this would allow the pallet to bypass SPBS/APPS processing. Nothing has been tested or approved at this point.

DPP Market Research

Greg Whiteman, Manager Market Research presented the next steps planned for DPP market research. As a follow-up to qualitative research completed earlier this year, the Postal Service is preparing to conduct quantitative research using a representative sample of American households and delivery modes to the home. Two packaging options, a plastic bag and an adhesive wrap around binder, will be tested. The research will assess:

- Attitudes and perceptions about the Postal Service and mail,
- Behavior in handling the mail
- Reactions to packaging concepts
- Impact of packaging on the basic behavior
- Impact of packaging on the perception of the Postal Service

Val Scansaroli asked it we were testing for environmental concerns. Greg Whiteman acknowledged that it was being tested and reiterated that we want to make sure that packaging does not change consumers' perceptions about the value of mail and the Postal Service. We want to find out if consumers will handle mail in a package any differently in the home vs. how they handle it today.

Greg Whiteman stated that the survey sample size is 2,500 and indicated that a sample size of 1,000 produces nationally representative results. Vince Giuliano indicated that his firm uses a similar sample size to project national results.

Bob O'Brien mentioned that Cox Target Marketing had expressed some interest in a field and control test to measure change in advertising response rates of packaged mail. Greg Whiteman said he could review the Cox plan if they want to submit it. Field control and test research has a number of limitations. It is difficult to identify and set up matched demographic test and control groups and only a single packaging concept can be tested. Further, this type of testing is representative only for the narrow geographic area where the testing is done and does not produce nationally representative results. Even when test and control is carefully set up, there would still be some uncertainty as to whether the results were due to changes in the packaging or if another variable that was not tested affected the results.

The Postal Service and outside market research experts strongly believe the better way to determine any change from packaging is through quantitative market research that asks consumers, through a carefully constructed survey, if they would alter the way they handle their mail. It allows evaluation of multiple packaging options, produces nationally

representative results and better utilizes money and resources. Marketing firms normally use quantitative market research to evaluate consumer reactions to change, not field control and test. The Postal Services uses quantitative research to develop its market forecast for product and pricing changes and is part of the filing for such changes with the Postal Rate Commission.

Greg Whiteman offered to send a copy of the quantitative market research survey to the industry for review.

Open Discussion

Bob O'Brien opened the discussion stating that it has been a year since the Flats Summit and there is a need for the Steering Committee to update to the industry on the status of DPP/FSS. Businesses need some guidance on where we are at in the process, next steps, expected decision points and impacts that they should consider in their business planning processes, e.g., make up requirements, dimensions, address label placement, saturation mail, and critical entry times. Will there be a need to form workgroups to work specific issues?

Frequently asked questions are posted on the RIBBS Corporate Flats Strategy website.

At the end of the meeting, the following was decided:

1. The next steering committee meeting would be in early October. Decisions will need to be made about workgroups that may be needed and how to organize them (by mail type or some other mix).
2. A status/update from the steering committee needs to be drafted and issued over the next few weeks.
3. Brief the full MTAC membership at the October meeting.
4. Industry will develop strawman proposals for workgroups

The meeting adjourned at 2:00 pm.